

NEWARK CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Newark, Delaware

FINANCIAL STATEMENTS

JUNE 30, 2006

NEWARK CHARTER SCHOOL
(A Component Unit of the State of Delaware)

Table of Contents

INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS SECTION	3 - 9
BASIC FINANCIAL STATEMENTS SECTION	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	
- For the Year Ended June 30, 2006	11
- For the Year Ended June 30, 2005	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to Statement of Activities	16
Statement of Fiduciary Net Assets - Agency Fund	17
Notes to Financial Statements	18 - 26
REQUIRED SUPPLEMENTARY INFORMATION SECTION	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual - General Fund	27
SUPPLEMENTARY SECTION	
Combining Balance Sheet - General Fund	28
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund	29
Schedule of Expenditures by Natural Classification - General Fund	30
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31 - 32
Schedule of Findings and Recommendations	33

Dover, Delaware
800.355.8210
Media, Pennsylvania
610.565.5222

INDEPENDENT AUDITORS' REPORT

202 Bancroft Building
3411 Silverside Road
Wilmington, Delaware 19810
302.478.8940
FAX: 302.478.0133
www.btcpa.com
info@btcpa.com

November 29, 2006

Board of Directors
Newark Charter School
Newark, Delaware

We have audited the accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Newark Charter School (the "School"), Newark, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these basic financial statements based on our audit. The prior year summarized comparative information in the fund financial statements has been derived from the School's financial statements as of and for the year ended June 30, 2005 and, in our report dated July 27, 2005, we expressed an unqualified opinion on those fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Newark Charter School as of June 30, 2006, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 3 through 9 and page 27, respectively, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited

Board of Directors
Newark Charter School

procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Newark Charter School's basic financial statements. The schedules on pages 28-30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barbacane, Thornton & Company

BARBACANE, THORNTON & COMPANY

**MANAGEMENT'S DISCUSSION
AND ANALYSIS SECTION**

NEWARK CHARTER SCHOOL MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the School's financial performance provides an overview of the School's financial activities for the year ended June 30, 2006, which was the School's fifth full year of operations and also its third year of operations in its newly constructed 59,000 square foot facility located at 2001 Patriot Way in Newark. Please read it in conjunction with the Independent Auditors' Report and the School's financial statements.

FINANCIAL HIGHLIGHTS

The School's net assets increased by \$607,898, or 23.8 percent, and totaled \$3,165,988 as of June 30, 2006.

The primary changes in the School's Statement of Net Assets compared to FY 2005 were a decrease in its note payable balance of \$1,126,913. The note payable balance decreased as the result of a full year of debt service following completion of the new facility in early FY 2005, as well as a special payment after the School utilized the funds from closing a certificate of deposit during the current year. Similarly, the School's capital assets (net) actually decreased by \$202,338 for the year as the result of nominal new additions following facility completion and normal depreciation, and totaled \$7,807,662 at June 30. The School's balance related to current liabilities increased by \$46,840 to \$1,073,998, primarily as the result of growth in the year-end accruals for expenditures, salary and associated taxes and benefits. Most of these accruals relate to the fact that the School's teaching staff works on a 10-month school year basis and is compensated over a full 12-month payment period, resulting in a two-month "lag" accrual at June 30.

Total revenues for the year (both general and program-related) increased by \$600,485, or 10 percent, in FY 2006 compared to FY 2005, totaling to \$5,919,229 for the year. General revenues increased by \$633,170 during FY 2006, primarily due to increased state reimbursement rates. Enrollment was consistent at 648 for FY 2006 and FY 2005. The 648 figure represents the School's maximum enrollment per its charter. Program revenues for FY 2006 decreased slightly from the previous year by \$32,685 to \$327,115.

Total expenses (gross) for FY 2006 totaled to \$5,311,331, an increase of \$307,795, or 6.2 percent, compared to FY 2005. Instructional, facility-related and transportation-related costs all increased in FY 2006 compared to FY 2005. The primary reasons for these increases were the increased reimbursement rates cited above, increased spending associated with federal grants received and general economic conditions, particularly in regard to increased transportation (busing) costs.

USING THIS ANNUAL FINANCIAL REPORT

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole and then proceed to provide an increasingly detailed look at specific financial activities.

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment stability and facility conditions in arriving at a conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major funds and fund financial statements provides detailed information about the most significant funds - not the School as a whole. Some funds are required to be established by State statute, while many other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

The School is fiduciary for its student activity assets that, due to a fiduciary arrangement, can be used only for student activities. All of the School's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the School's other financial statements because the assets cannot be utilized by the School to finance its operations.

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$3,165,988 at the close of the fiscal year. Note that invested in capital assets are reported net of related debt and net of depreciation. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

**Table 1
NET ASSETS**

	Governmental Activities	
	2006	2005
Current and Other Assets:		
Cash and investments	\$ 2,574,652	\$ 2,777,929
Due from State of Delaware - Interest earnings	10,373	-
Receivables	-	4,848
Total Current Assets	2,585,025	2,782,777
Noncurrent Assets:		
Capital assets, net of depreciation	<u>7,807,662</u>	<u>8,010,000</u>
TOTAL ASSETS	<u>10,392,687</u>	<u>10,792,777</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	52,744	14,368
Accrued salaries and related costs	531,834	527,896
Capital lease liability	1,466	1,333
Due to State of Delaware – pension costs	67,694	63,301
Note payable	<u>420,260</u>	<u>420,260</u>
Total Current Liabilities	<u>1,073,998</u>	<u>1,027,158</u>
Noncurrent Liabilities:		
Compensated absences	233,283	159,732
Capital lease liability	2,187	3,653
Note Payable	<u>5,917,231</u>	<u>7,044,144</u>
Total Noncurrent Liabilities	<u>6,152,701</u>	<u>7,207,529</u>
TOTAL LIABILITIES	<u>7,226,699</u>	<u>8,234,687</u>
Net Assets:		
Invested in capital assets, net of related debt	1,466,518	540,610
Restricted for debt service	68,782	780,945
Unrestricted	<u>1,630,688</u>	<u>1,236,535</u>
TOTAL NET ASSETS	<u>\$ 3,165,988</u>	<u>\$ 2,558,090</u>

A portion of the School's net assets represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the School's ongoing activities.

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The School is able to report positive balances in net assets, both for the government as a whole and for its separate governmental-type activities.

**Table 2
CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
REVENUES		
General revenues:		
Charges to school districts	\$ 1,824,372	\$ 1,539,142
Payments from primary government	3,650,873	3,350,696
Earnings on cash and investments	116,869	51,115
Other local sources	-	17,991
Program revenues:		
Operating grants and contributions	<u>327,115</u>	<u>359,800</u>
Total Revenues	<u>5,919,229</u>	<u>5,318,744</u>
EXPENSES		
Instructional services	4,051,914	3,660,963
Support services:		
Operation and maintenance of facilities	420,468	478,107
Transportation	451,638	420,030
Interest payments on long-term debt	<u>387,311</u>	<u>444,436</u>
Total Expenses	<u>5,311,331</u>	<u>5,003,536</u>
CHANGE IN NET ASSETS	<u>\$ 607,898</u>	<u>\$ 315,208</u>

Governmental Activities

Net assets of the School's governmental activities increased by \$607,898, and unrestricted net assets reflect a positive balance of \$1,630,688. The increase in net assets is primarily the result of increased state and local reimbursement rates and effective cost management.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues that include charges to School Districts, investment earnings and state entitlements must support the net cost of the School's programs.

	<u>2006 Services</u>		<u>2005 Services</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
Governmental Activities:				
Instructional services	\$ 4,051,914	\$ 3,724,799	\$ 3,660,963	\$ 3,301,163
Support services:				
Operation & maintenance of facilities	420,468	420,468	478,107	478,107
Transportation	451,638	451,638	420,030	420,030
Interest on long-term debt	<u>387,311</u>	<u>387,311</u>	<u>444,436</u>	<u>444,436</u>
Total Expenses	<u>\$ 5,311,331</u>	<u>\$ 4,984,216</u>	<u>\$ 5,003,536</u>	<u>\$ 4,643,736</u>

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$4,984,216 of support as well as general revenues comprising 94 percent of total revenues.

THE SCHOOL'S FUNDS

The School's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$1,932,753 compared to last year's total of \$2,177,212. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	Increase (Decrease)
Governmental funds	<u>\$ 1,932,753</u>	<u>\$ 2,177,212</u>	<u>\$ (244,459)</u>

Governmental Funds

The School's fund balance decrease is due to a variety of factors. The tables that follow assist in illustrating the financial activities and balance of governmental funds.

	<u>Total Governmental Funds</u>	
	<u>2006</u>	<u>2005</u>
REVENUES:		
Charges to school districts	\$ 1,824,372	\$ 1,539,142
State aid	3,650,873	3,401,444
Federal aid	222,794	209,921
Earnings on cash and investments	116,869	51,115
Contributions	104,321	99,131
Other local sources	-	17,991
TOTAL REVENUES	<u>5,919,229</u>	<u>5,318,744</u>
EXPENDITURES:		
Current:		
Instruction	3,936,937	3,570,759
Operation and maintenance of facilities	235,086	291,392
Transportation	451,638	420,030
Debt service:		
Principal	1,126,913	420,260
Interest	387,311	444,436
Capital outlays:		
Equipment	<u>25,803</u>	<u>67,048</u>
TOTAL EXPENDITURES	<u>6,163,688</u>	<u>5,213,925</u>
NET CHANGE IN FUND BALANCES	(244,459)	104,819
FUND BALANCES, BEGINNING OF YEAR	<u>2,177,212</u>	<u>2,072,393</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,932,753</u>	<u>\$ 2,177,212</u>

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The School's expenditures exceeded revenues for FY 2006 by \$244,459 resulting in a decrease in fund balance. No new financing proceeds were received during the FY 2006 year. The fund balances remain at a level comfortably adequate to provide for anticipated cash flow needs, including projected debt service levels.

GENERAL FUND BUDGET INFORMATION

The School's budget is prepared on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. The School may amend its revenue and expenditure estimates periodically due to changing conditions. The budget was not amended during fiscal year 2006.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 27.

Revenues

Charges to School Districts

The favorable variance of \$284,303 is attributable primarily to the utilization of prior year per-student rates. A rate increase of \$450 for approximately 650 students accounts for this variance.

State Aid

The favorable variance of \$179,655 is attributable primarily to a conservative budget projection utilized relative to the state unit funding formula using prior year per-student rates. A rate increase of \$400 for approximately 650 students accounts for this variation.

Federal Aid

The favorable variance of \$137,794 is attributable to receipt of approximately \$100,000 of federal dissemination grant funding and approximately \$60,000 of federal consolidated grant funding for which the School did not budget since these funds could not be used to support its core operations. Also, the School budgeted federal funds received via the consolidated grant process in a very conservative fashion.

Expenditures

Contractual Services

The unfavorable variance of \$75,674 is attributable primarily to the School having an increase in part-time staff. This expense was charged to contractual services where previously it was charged to salaries.

Supplies and Materials

The unfavorable variance of \$93,741 is attributable primarily to the School utilizing funds from its dissemination grants to purchase instructional materials during FY 2006.

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL ASSETS

The School has \$7,807,662 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled \$43,077, and depreciation was \$245,415. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

DEBT ADMINISTRATION

As of July 1, 2005, the School had total outstanding debt of \$7,464,404. During the year, the School made payments against principal of \$1,126,913, resulting in ending outstanding debt of \$6,337,491 as of June 30, 2006.

Other obligations include accrued vacation pay and sick leave for School employees. More detailed information about long-term liabilities is included in Note 4 to the financial statements.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Fiscal year 2006 was the fifth year of operation as a functioning school. The School expects that its enrollment to remain at 648 (planned capacity) in FY 2007. The School was granted a charter modification to expand its grade configuration to include grades Kindergarten through 4. Occupancy must be made by June 2007. The School is in the process of purchasing bordering land on which to build the expansion. The School made settlement on the financing to build this expansion. Expected enrollment for FY 2008 is 1,286. Larger enrollment would result in an increase in state and local district revenues, as well as an increase in operating expenses.

The financial model the School has developed is based on the funding formula currently in effect under the Delaware Charter School Law. If the funding formula for charter schools changes, adjustments to the underlying assumptions of the model will have to be made.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the School office at (302) 369-2001.

BASIC FINANCIAL STATEMENTS SECTION

**NEWARK CHARTER SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,505,870	\$ 1,996,984
Cash and cash equivalents - restricted	68,782	780,945
Receivables:		
Due from State of Delaware - interest earnings	10,373	-
Other	<u>-</u>	<u>4,848</u>
Total Current Assets	2,585,025	2,782,777
NONCURRENT ASSETS:		
Capital assets, net of depreciation	<u>7,807,662</u>	<u>8,010,000</u>
TOTAL ASSETS	<u>\$10,392,687</u>	<u>\$10,792,777</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 52,744	\$ 14,368
Accrued salaries	531,834	527,896
Capital lease liability	1,466	1,333
Due to State of Delaware - pension costs	67,694	63,301
Notes payable	<u>420,260</u>	<u>420,260</u>
Total Current Liabilities	<u>1,073,998</u>	<u>1,027,158</u>
NONCURRENT LIABILITIES:		
Compensated absences	233,283	159,732
Capital lease liability	2,187	3,653
Notes payable	<u>5,917,231</u>	<u>7,044,144</u>
Total Noncurrent Liabilities	<u>6,152,701</u>	<u>7,207,529</u>
TOTAL LIABILITIES	<u>7,226,699</u>	<u>8,234,687</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,466,518	540,610
Restricted for debt service	68,782	780,945
Unrestricted	<u>1,630,688</u>	<u>1,236,535</u>
Total Net Assets	<u>3,165,988</u>	<u>2,558,090</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$10,392,687</u>	<u>\$10,792,777</u>

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets Total
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ (4,051,914)	\$ -	\$ 327,115	\$ -	\$ (3,724,799)
Support services:					
Operation and maintenance	(420,468)	-	-	-	(420,468)
of facilities	(451,638)	-	-	-	(451,638)
Transportation	(387,311)	-	-	-	(387,311)
Interest on long-term debt					
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (5,311,331)</u>	<u>\$ -</u>	<u>\$ 327,115</u>	<u>\$ -</u>	<u>(4,984,216)</u>
GENERAL REVENUES					
Charges to school districts					1,824,372
Payments from primary government					3,650,873
Earnings on cash and investments					116,869
TOTAL GENERAL REVENUES					<u>5,592,114</u>
CHANGE IN NET ASSETS					607,898
NET ASSETS, BEGINNING OF YEAR					<u>2,558,090</u>
NET ASSETS, END OF YEAR					<u>\$ 3,165,988</u>

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ (3,660,963)	\$ -	\$ 359,800	\$ -	\$ (3,301,163)
Support services:					
Operation and maintenance of facilities	(478,107)	-	-	-	(478,107)
Transportation	(420,030)	-	-	-	(420,030)
Interest on long-term debt	(444,436)	-	-	-	(444,436)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (5,003,536)</u>	<u>\$ -</u>	<u>\$ 359,800</u>	<u>\$ -</u>	<u>(4,643,736)</u>
GENERAL REVENUES					
Charges to school districts					1,539,142
Payments from primary government					3,350,696
Earnings on cash and investments					51,115
Other local sources					<u>17,991</u>
TOTAL GENERAL REVENUES					<u>4,958,944</u>
CHANGE IN NET ASSETS					315,208
NET ASSETS, BEGINNING OF YEAR					<u>2,242,882</u>
NET ASSETS, END OF YEAR					<u>\$ 2,558,090</u>

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Debt Service Fund	Totals
	2006		2005
ASSETS			
Cash and cash equivalents	\$2,505,870	\$ -	\$1,996,984
Cash and cash equivalents - restricted	-	68,782	780,945
Receivables:			
Due from State of Delaware -			
Interest earnings	10,373	-	-
Other	-	-	4,848
TOTAL ASSETS	<u>\$2,516,243</u>	<u>\$ 68,782</u>	<u>\$2,782,777</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 52,744	\$ -	\$ 14,368
Accrued salaries	531,834	-	527,896
Due to State of Delaware - pension costs	67,694	-	63,301
Total Liabilities	<u>652,272</u>	<u>-</u>	<u>605,565</u>
FUND BALANCES:			
Reserved for encumbrances	5,796	-	153
Reserved for debt service	-	68,782	780,945
Reserved for:			
Textbooks/library	846	-	48,348
Unreserved	<u>1,857,329</u>	<u>-</u>	<u>1,347,766</u>
Total Fund Balances	<u>1,863,971</u>	<u>68,782</u>	<u>2,177,212</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$2,516,243</u>	<u>\$ 68,782</u>	<u>\$2,782,777</u>

The accompanying notes are an integral part of these financial statements.

**NEWARK CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
JUNE 30, 2006**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,932,753
---	---------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.

7,807,662

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences	\$ (233,283)
Notes payable and capital lease	<u>(6,341,144)</u>

(6,574,427)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES

\$3,165,988

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Debt Service Fund	2006	Totals	2005
REVENUES:					
Charges to school districts	\$1,824,372	\$ -	\$ 1,824,372		\$ 1,539,142
State aid	3,650,873	-	3,650,873		3,401,444
Federal aid	222,794	-	222,794		209,921
Earnings on cash and investments	113,440	3,429	116,869		51,115
Contributions	104,321	-	104,321		99,131
Other local sources	-	-	-		17,991
TOTAL REVENUES	<u>5,915,800</u>	<u>3,429</u>	<u>5,919,229</u>		<u>5,318,744</u>
EXPENDITURES					
Current:					
Instruction	3,936,937	-	3,936,937		3,570,759
Operation and maintenance of facilities	235,086	-	235,086		291,392
Transportation	451,638	-	451,638		420,030
Debt service:					
Principal	-	1,126,913	1,126,913		420,260
Interest	-	387,311	387,311		444,436
Capital outlays:					
Equipment	25,803	-	25,803		67,048
TOTAL EXPENDITURES	<u>4,649,464</u>	<u>1,514,224</u>	<u>6,163,688</u>		<u>5,213,925</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,266,336</u>	<u>(1,510,795)</u>	<u>(244,459)</u>		<u>104,819</u>
OTHER FINANCING SOURCES (USES)					
Transfers	(798,632)	798,632	-		-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(798,632)</u>	<u>798,632</u>	<u>-</u>		<u>-</u>
NET CHANGE IN FUND BALANCES	467,704	(712,163)	(244,459)		104,819
FUND BALANCES, BEGINNING OF YEAR	<u>1,396,267</u>	<u>780,945</u>	<u>2,177,212</u>		<u>2,072,393</u>
FUND BALANCES, END OF YEAR	<u>\$1,863,971</u>	<u>\$ 68,782</u>	<u>\$ 1,932,753</u>		<u>\$ 2,177,212</u>

The accompanying notes are an integral part of these financial statements.

**NEWARK CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (244,459)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlays	\$ 43,077	
Depreciation Expense	<u>(245,415)</u>	(202,338)

The repayment of principal is an expenditure in the governmental funds but is a reduction to the liability in the statement of net assets.

Principal - notes payable	1,126,913
Capital lease payment	1,333

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	<u>(73,551)</u>
----------------------	-----------------

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 607,898**

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND
JUNE 30, 2006

	Student Activities Fund
ASSETS	
Cash and cash equivalents	<u>\$ 72,361</u>
LIABILITIES	
Due to student groups	<u>\$ 72,361</u>

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

Newark Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. An initial charter is granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

The financial statements of Newark Charter School have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Newark Charter School (the "School") are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

NEWARK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

Charges to the school districts, state appropriations and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Additionally, the School reports the following fund types:

- **Debt Service Fund.** These funds are maintained to accumulate resources for the payment of interest and principal on long-term general obligation debt.
- **Student Activities Agency Fund (a fiduciary fund).** Accounts for assets held on behalf of student groups.

Amounts reported as program revenues include 1) charges to students for special fees, supplies or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2006, the School had no such activity.

Advances between funds, when present in the financial statements, are offset by fund balance reserves in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. At June 30, 2006, the School had no such activity.

The School considers all accounts receivable at year end to be collectible; therefore, no allowance for doubtful accounts has been recorded.

Capital Assets

Capital assets, which include buildings, and furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Buildings, and furniture and equipment of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

Buildings	40 years
Furniture and fixtures	3 years
Equipment	5 years

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. The liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation - Twelve-month employees can accumulate up to 10 days of vacation. Any days in excess of 10 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

Sick Leave - Sick leave allowances are as follows: teachers shall be allowed 10 days of sick leave per year and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit up to a maximum of 90 days. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

The compensated absences liability was \$233,283 and \$159,732 at June 30, 2006 and 2005, respectively.

Restricted Net Assets

Restricted net assets are comprised of assets, net of related liabilities, that are required to be set aside for debt service payments. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the School's June 30, 2005 basic financial statements to be comparative with the current year presentation.

NEWARK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2006 and 2005, the School had a cash equivalent balance of \$2,647,013 and \$2,847,094, respectively. Of those amounts, \$2,561,104 and \$2,059,656 as of June 30, 2006 and 2005, respectively, were part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

At June 30, 2006 and 2005, the reported amount of the School's deposits outside of the State Treasurer's Office was \$85,909 and \$787,413, respectively. The bank balance at June 30, 2006 and 2005 was \$85,914 and \$787,568, respectively, of which \$100,000 was covered by federal depository insurance and \$0 and \$687,568, respectively, was not insured or collateralized and, therefore, was subject to custodial credit risk.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 is as follows:

Governmental Activities:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
General capital assets not being depreciated:				
Land	\$ 846,710	\$ -	\$ -	\$ 846,710
Construction-in-progress	-	7,190	-	7,190
Total general capital assets not being depreciated	<u>846,710</u>	<u>7,190</u>	<u>-</u>	<u>853,900</u>
General capital assets being depreciated				
Buildings	7,468,590	-	-	7,468,590
Furniture and equipment	<u>183,269</u>	<u>35,887</u>	<u>-</u>	<u>219,156</u>
Total general capital assets being depreciated	7,651,859	35,887	-	7,687,746
Accumulated depreciation	<u>(488,569)</u>	<u>(245,415)</u>	<u>-</u>	<u>(733,984)</u>
Total general capital assets being depreciated, net	<u>7,163,290</u>	<u>(209,528)</u>	<u>-</u>	<u>6,953,762</u>
Governmental Activities, Net	<u>\$8,010,000</u>	<u>\$ (202,338)</u>	<u>\$ -</u>	<u>\$7,807,662</u>

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

Depreciation expense was charged to the following governmental activities:

Instructional services	\$ 58,700
Operations and maintenance of facilities	<u>186,715</u>
	<u>\$ 245,415</u>

NOTE 4 LONG-TERM DEBT

WSFS Loan

On August 29, 2003, the School converted its construction loan used to construct the school building into a permanent loan, bearing an interest rate of 5.82 percent through August 29, 2006, when the rate will be reset at either a floating prime rate or a fixed rate. The original amount of the permanent loan was \$8,500,000, and the carrying amount is \$6,337,491 as of June 30, 2006. Interest payments are due on the 29th day of each month with a principal payment of \$420,260 due on each annual anniversary date of the loan conversion. In November 2005, the School made a special payment in the amount of \$706,653 when closing its certificate of deposit with WSFS. In August of fiscal year 2011, the balance of the loan principal is due in the amount of \$4,659,451. It is the intention of the School to refinance this loan in the near future.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 420,260	\$ 395,009	\$ 815,269
2008	420,260	371,213	791,473
2009	420,260	366,065	786,325
2010	420,260	349,597	769,857
2011	<u>4,656,451</u>	<u>344,558</u>	<u>5,001,009</u>
	<u>\$ 6,337,491</u>	<u>\$ 1,826,442</u>	<u>\$ 8,163,933</u>

A schedule of changes in debt is as follows:

	<u>Outstanding</u> <u>6/30/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u> <u>6/30/2006</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Notes payable	\$7,464,404	\$ -	\$(1,126,913)	\$6,337,491	\$420,260
Compensated absences	159,732	73,551	-	233,283	-
Capital lease agreement	<u>4,986</u>	<u>-</u>	<u>(1,333)</u>	<u>3,653</u>	<u>1,466</u>
Total Governmental Activities	<u>\$7,629,122</u>	<u>\$ 73,551</u>	<u>\$(1,128,246)</u>	<u>\$6,574,427</u>	<u>\$421,726</u>

NEWARK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan which is a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"). The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to Chapter 55, Title 29 of the Delaware Code.

All full-time and regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability and death benefits. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service - age 55
 - b. 25 years service - any age
- Service retirement:
 - a. 15 years service - age 60
 - b. 30 years service - any age
 - c. 5 years service - age 62
- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension - an employee can vest pension rights after five years of service.

The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904, or by calling 1-800-722-7300.

Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's contribution to the State PERS for the years ended June 30, 2006 and 2005 was \$381,612 and \$310,439, respectively.

NOTE 6 LEASING ARRANGEMENTS

Operating Lease

The School leases its copier equipment under an operating lease arrangement expiring in January 2009. Total rental expense for the years ended June 30, 2006 and 2005 was \$26,280 for each year.

NEWARK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 6 LEASING ARRANGEMENTS (cont'd)

At June 30, 2006, the minimum future rental payments under noncancelable leasing arrangements having remaining terms in excess of one year for the remaining years and in the aggregate are:

Years Ending June 30,

2006	\$ 26,280
2008	26,280
2009	<u>13,140</u>

Minimum future rental payments required \$ 65,700

Capital Lease

The School leases its floor scrubber equipment under a capital leasing arrangement expiring in November 2008. The equipment has an original purchase price of \$7,000, with a bargain purchase option at the end of the lease term for the sum of one dollar.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,466	\$ 286	\$ 1,752
2008	1,468	139	1,607
2009	<u>719</u>	<u>11</u>	<u>730</u>
	<u>\$ 3,653</u>	<u>\$ 436</u>	<u>\$ 4,089</u>

Total minimum lease payments \$ 4,089

Present Value of Minimum Lease Payments \$ 3,653

NOTE 7 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in any of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE 8 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

NEWARK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 8 COMMITMENTS AND CONTINGENCIES (cont'd)

Grants

The School receives significant financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

Construction Commitments

As of June 30, 2006, the School was in the process of planning an expansion through the construction of a new building. Construction commitments completed to date are as follows:

<u>Contract</u>	<u>Contract Amount</u>	<u>Commitments</u>	<u>Completed to June 30, 2006</u>
Construction manager	\$ 7,400,000	\$ 7,398,840	\$ 1,160
Engineering services	<u>56,200</u>	<u>50,170</u>	<u>6,030</u>
	<u>\$ 7,456,200</u>	<u>\$ 7,449,010</u>	<u>\$ 7,190</u>

NOTE 9 RELATED PARTY TRANSACTIONS

Newark Charter School had previously utilized Innovative Schools Development Corporation (ISDC) for the guarantee of its debt held with Wilmington Savings Fund Society (WSFS) for a contracted fee of \$12,698. The ISDC loan guarantee was released on October 3, 2005. The School also contracts various accounting services throughout the year with ISDC, at a rate of \$1,600 per month. The President of the Board of Directors of Newark Charter School also is the Chief Executive Officer of ISDC.

NOTE 10 LINE OF CREDIT

The School has a line of credit under which it may borrow up to \$100,000 at prime rate plus 1.50 percent. This line of credit is unsecured. The interest rate at June 30, 2006 was 9.75 percent and no borrowings occurred during the year.

NOTE 11 SUBSEQUENT EVENT

The School was granted charter modification to expand its grade configuration to include grades kindergarten through 4. The new School is scheduled to open in August 2007. The School has entered into an agreement to purchase five acres of land, at \$150,000 per acre, bordering its current facility. The School went to settlement on October 31, 2006 to finance the expansion in the amount of \$14,905,000 for 30 years at an interest rate of 5.25 percent.

REQUIRED SUPPLEMENTAL INFORMATION SECTION

NEWARK CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
REVENUES:				
Charges to school districts	\$1,540,069	\$1,540,069	\$1,824,372	\$ 284,303
State aid	3,471,218	3,471,218	3,650,873	179,655
Federal aid	85,000	85,000	222,794	137,794
Earning on cash and investments	40,000	40,000	113,440	73,440
Contributions	80,000	80,000	104,321	24,321
TOTAL REVENUES	<u>5,216,287</u>	<u>5,216,287</u>	<u>5,915,800</u>	<u>699,513</u>
EXPENDITURES				
Current:				
Salaries	2,570,862	2,570,862	2,608,439	(37,577)
Employment costs	968,444	968,444	939,712	28,732
Travel	4,700	4,700	7,147	(2,447)
Contractual services	128,100	128,100	203,774	(75,674)
Communications	8,300	8,300	6,689	1,611
Public utilities service	89,000	89,000	97,198	(8,198)
Insurance	27,000	27,000	24,458	2,542
Transportation - buses	420,030	420,030	451,638	(31,608)
Repairs and maintenance	71,000	71,000	95,782	(24,782)
Supplies and materials	94,500	94,500	188,241	(93,741)
Capital Outlays:				
Equipment	29,500	29,500	26,386	3,114
Building	1,000	1,000	-	1,000
TOTAL EXPENDITURES	<u>4,412,436</u>	<u>4,412,436</u>	<u>4,649,464</u>	<u>(237,028)</u>
Excess of Revenues Over Expenditures	<u>803,851</u>	<u>803,851</u>	<u>1,266,336</u>	<u>462,485</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(798,632)	(798,632)	(798,632)	-
TOTAL OTHER FINANCING USES	<u>(798,632)</u>	<u>(798,632)</u>	<u>(798,632)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	5,219	5,219	467,704	462,485
FUND BALANCE, BEGINNING OF YEAR	<u>1,396,267</u>	<u>1,396,267</u>	<u>1,396,267</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$1,401,486</u>	<u>\$1,401,486</u>	<u>\$1,863,971</u>	<u>\$ 462,485</u>

NOTE: The School's budget is presented on the modified accrual basis of accounting.

SUPPLEMENTAL SECTION

NEWARK CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2006

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
ASSETS				
Cash and investments	\$ 39,732	\$2,466,138	\$ -	\$2,505,870
Receivables:				
Other governments	<u>-</u>	<u>10,373</u>	<u>-</u>	<u>10,373</u>
TOTAL ASSETS	<u>\$ 39,732</u>	<u>\$2,476,511</u>	<u>\$ -</u>	<u>\$2,516,243</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 19,041	\$ 33,703	\$ -	\$ 52,744
Accrued salaries	-	531,834	-	531,834
Due to State of Delaware - pension costs	<u>-</u>	<u>67,694</u>	<u>-</u>	<u>67,694</u>
TOTAL LIABILITIES	<u>19,041</u>	<u>633,231</u>	<u>-</u>	<u>652,272</u>
FUND BALANCES:				
Reserved for encumbrances	5,796	-	-	5,796
Unreserved:				
General Fund	14,049	1,843,280	-	1,857,329
Restricted for textbooks/library	<u>846</u>	<u>-</u>	<u>-</u>	<u>846</u>
TOTAL FUND BALANCES	<u>20,691</u>	<u>1,843,280</u>	<u>-</u>	<u>1,863,971</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 39,732</u>	<u>\$2,476,511</u>	<u>\$ -</u>	<u>\$2,516,243</u>

**NEWARK CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
REVENUES				
Charges to school districts	\$ -	\$1,824,372	\$ -	\$1,824,372
State aid	3,650,873	-	-	3,650,873
Federal aid	-	-	222,794	222,794
Earnings on cash and investments	-	113,440	-	113,440
Contributions	-	104,321	-	104,321
TOTAL REVENUES	<u>3,650,873</u>	<u>2,042,133</u>	<u>222,794</u>	<u>5,915,800</u>
EXPENDITURES				
Current:				
Instruction	2,564,446	1,166,257	206,234	3,936,937
Operation and maintenance of facilities	140,461	94,625	-	235,086
Transportation	223,965	227,673	-	451,638
Capital Outlays:				
Equipment	6,336	2,907	16,560	25,803
TOTAL EXPENDITURES	<u>2,935,208</u>	<u>1,491,462</u>	<u>222,794</u>	<u>4,649,464</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>715,665</u>	<u>550,671</u>	<u>-</u>	<u>1,266,336</u>
OTHER FINANCING SOURCES (USES)				
Transfers	(798,632)	-	-	(798,632)
TOTAL OTHER FINANCING USES	<u>(798,632)</u>	<u>-</u>	<u>-</u>	<u>(798,632)</u>
NET CHANGE IN FUND BALANCES	(82,967)	550,671	-	467,704
FUND BALANCES, BEGINNING OF YEAR	<u>103,658</u>	<u>1,292,609</u>	<u>-</u>	<u>1,396,267</u>
FUND BALANCES, END OF YEAR	<u>\$ 20,691</u>	<u>\$1,843,280</u>	<u>\$ -</u>	<u>\$1,863,971</u>

**NEWARK CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

EXPENDITURES

Current:

Salaries	\$2,608,439
Employment costs	939,712
Travel	7,147
Contractual services	203,774
Communications	6,689
Public utilities service	97,198
Insurance	24,458
Transportation - buses	451,638
Repairs and maintenance	95,782
Supplies and materials	188,241

Capital Outlays:

Equipment	26,386
-----------	--------

Transfers to Debt Service for:

Principal	420,260
Interest	<u>378,372</u>

TOTAL EXPENDITURES	<u>\$5,448,096</u>
---------------------------	---------------------------

Dover, Delaware
800.355.8210

Media, Pennsylvania
610.565.5222

202 Bancroft Building
3411 Silverside Road
Wilmington, Delaware 19810
302.478.8940

FAX: 302.478.0133
www.btcpa.com
info@btcpa.com

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 29, 2006

Board of Directors
Newark Charter School
Newark, Delaware

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining information of Newark Charter School, Newark, Delaware as of and for the year ended June 30, 2006 and have issued our report thereon dated November 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newark Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newark Charter School's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Board of Directors
Newark Charter School

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of Management and Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Barbacane, Thornton & Company".

BARBACANE, THORNTON & COMPANY

NEWARK CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.